



June 28, 2012

**VIA ELECTRONIC MAIL**

David A. Stawick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

**Re: Rule Filing SR-OCC-2012-10 Rule Certification**

Dear Secretary Stawick:

Enclosed is a copy of the above-referenced rule filing, which The Options Clearing Corporation (“OCC”) is submitting pursuant to the self-certification procedures of Commodity Futures Trading Commission (the “CFTC” or “Commission”) Regulation 40.6. The date of implementation of the rule is the later of 10 business days following receipt of the rule filing by the CFTC hereof or the date the proposed rule is approved by the Securities and Exchange Commission (the “SEC”) or otherwise becomes effective under the Securities Exchange Act of 1934 (the “Exchange Act”). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act. The text of the amended rule filing is set forth at Item 1 of the enclosed filing.

In conformity with the requirements of Regulation 40.6(a)(7), OCC states the following:

**Explanation and Analysis**

The purpose of this proposed rule change is to terminate OCC’s pledge program (“Program”). Since implementation of the Program, only a limited number of clearing members participated and those that did participate did so on a sporadic basis. OCC now proposes to eliminate the Program in its entirety.

The Program was adopted by OCC in the early 1980s to facilitate the ability of an OCC clearing member to finance positions by permitting the clearing member to pledge unsegregated long positions in cleared securities (other than securities futures) for a loan of cash. The Program was initially designed for and used by firms clearing market maker business; however, use of the Program diminished as market making operations were acquired by larger wire houses. While OCC occasionally receives an inquiry regarding the Program, it has been essentially dormant for some time. OCC recently reviewed the Program and determined that any potential benefits that

may be achieved through updating the Program are greatly offset by the resources required for such updating. Accordingly, OCC plans to terminate the Program in its entirety.

OCC proposes to eliminate Rule 614 in its entirety as well as references to the Program and Rule 614 in its Rules and in its By-Laws.

Additions are indicated by underlining and deletions are indicated by bold brackets.

Opposing Views

No opposing views were expressed related to the rule amendments.

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC's website concurrently with the filing of this submission.

Certification

OCC hereby certifies that the rule set forth at Item 1 of the enclosed filing complies with the Act and the CFTC's regulations thereunder.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,



Stephen Szarmack

Enclosure

cc: CFTC Central Region (w/ enclosure)  
525 West Monroe Street, Suite 1100  
Chicago, IL 60661

# SUBMISSION COVER SHEET

Exchange Identifier Code (optional)  Date: 6/28/2012

## IMPORTANT:

CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.

### ORGANIZATION

The Options Clearing Corporation

### FILING AS A:

DCM

DCO

DTEF

ECM/SPDC

### TYPE OF FILING

#### • Rule Amendments

Self-Certification Under Reg. 40.6(a) or 41.24

Commission Approval Requested Under Reg. 40.5 or 40.4 (a)

Notification of Rule Amendment Under Reg. 40.6(c)

Non-Material Agricultural Rule Change Determination Under Reg. 40.4(b)

#### • New Products

Self-Certification Under Reg. 40.2 or 41.23

Commission Approval Requested Under Reg. 40.3

### RULE NUMBERS

Article VI - Section 27; Chapter VI - Rule 601 and 614; Chapter XI - Rule 1105, 1106 and 1107; Chapter XV - Rule 1505; Chapter XVII - Rule 1705; Chapter XVIII - Rule 1807; Chapter XXIII - Rule 2306; Chapter XXVII - Rule 2706

### DESCRIPTION (Rule Amendments Only)

The rule change would terminate OCC's pledge program ("Program"). Since implementation of the Program, only a limited number of clearing members participated in the Program.

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**Form 19b-4**

**Proposed Rule Change**

**by**

**THE OPTIONS CLEARING CORPORATION**

**Pursuant to Rule 19b-4 under the  
Securities Exchange Act of 1934**



**Item 1. Text of the Proposed Rule Change**

The Options Clearing Corporation (“OCC” or the “Corporation”) proposes to amend its By-Laws and Rules as set forth below for the purpose of terminating its pledge program. Material proposed to be added to OCC’s By-Laws and Rules as currently in effect is underlined and material proposed to be deleted is enclosed in bold brackets.

**THE OPTIONS CLEARING CORPORATION****BY-LAWS**

\* \* \*

**ARTICLE VI****Clearance of Exchange Transactions**

\* \* \*

**Close-Out Netting**

SECTION 27. (a)-(c) [no change]

(d) *Netting Within Accounts.* The Corporation shall net the close-out values of positions in each account of each Clearing Member to determine the net asset position or net liability position in each account as follows:

- (1) Aggregate the close-out values of all asset positions (excluding segregated long option positions in a securities customers’ account or firm non-lien account [and long option positions in any account that have been pledged pursuant to Rule 614 and not released]), aggregate the (negative) close-out values of all liability positions, and net the aggregate asset position against the aggregate liability position.
- (2) The aggregate close-out value of segregated long option positions in a securities customers’ account or firm non-lien account shall be identified as constituting the property of the securities customers of the Clearing Member and held for distribution to the persons entitled thereto in accordance with applicable law. [The aggregate close-out value of long option positions that have been pledged to a bank or other third party under Rule 614 shall be held for the benefit of the pledgee as provided in Rule 614.]

(e)-(m) [no change]

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**RULES**

\* \* \*

**CHAPTER VI****Margins**

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**Margin Requirements**

RULE 601. (a)-(d) [no change]

(e) *Exclusions from Margin Requirement Calculation.* The following shall be excluded from the margin requirement calculation for any account pursuant to Rule 601(c) or (d):

(1)—(2) [no change]

[(3) long positions in cleared contracts that have been pledged to a Pledgee in accordance with Rule 614.]

[(4)3] upon the receipt by the Corporation of an Alternate Settlement Notification prepared in accordance with Rule 1302B(k), the physically-settled Treasury future(s) identified on such Alternate Settlement Notification.

**...Interpretations and Policies:**

.01-.06 [no change]

**[Pledge Program]**

RULE 614. Reserved [(a) *Designation of Account for Pledging Options.* A Clearing Member may pledge unsegregated long positions in cleared securities other than security futures carried in any account to any pledgee designated by such Clearing Member that agrees to comply with the provisions of this Rule (“Pledgee”). Before a Clearing Member can make any such pledges, the Corporation must approve the arrangement, the Clearing Member and the Pledgee must execute and submit to the Corporation an agreement (“Pledge Agreement”) in a form prescribed or approved by the Corporation, the Pledgee must designate an account (“Deposit Account”) with a Clearing Bank for accepting cash deposits pursuant to this Rule 614, and the Pledgee (if it is not a Clearing Member) must submit to the Corporation incumbency certificates identifying by name and title and authenticating the signatures of its officers or partners authorized to execute the documents contemplated by this Rule 614. The Corporation shall make available reports,

notices and other items contemplated by this Rule to Pledgeses in accordance with the procedures agreed to between the Corporation and each such Pledgee from time to time.

If a Clearing Member desires to pledge long positions in a cleared security to more than one Pledgee, the Corporation may permit the Clearing Member to do so. The Clearing Member must designate through such means as prescribed by the Corporation from time to time, which Pledgee shall be the first Pledgee, which Pledgee shall be the second Pledgee, etc., with respect to the instructions to pledge cleared securities pursuant to paragraph (c) below and the allocation of sales or exercises of cleared securities pursuant to paragraph (f) below. Each Pledgee, other than the first Pledgee must execute and submit to the Corporation a form ("Pledgee Acknowledgment Form") acknowledging and consenting to its designation. The Clearing Member may from time to time amend its Pledgee designations; provided, however, that no such amendment shall be effective if it changes the designation of any Pledgee unless a new Pledgee Acknowledgment Form executed by that Pledgee is submitted to the Corporation indicating that Pledgee's acknowledgment of and consent to such new designation.

- (b) **Instructions as to Pledged Positions.** Whenever a Clearing Member desires to pledge a long position in a cleared security to a Pledgee, the Clearing Member shall submit to the Corporation instructions ("Instructions to Pledge Positions") authorizing the Corporation to effect a pledge of any long position that is designated in such instruction and is then maintained in the Clearing Member's account designated in such instruction ("Designated Account") for the benefit of the Pledgee. Instructions to Pledge Positions shall be made in accordance with the procedures prescribed by the Corporation from time to time. The release of any long position carried in the Designated Account may be requested by filing with the Corporation a form ("Instructions to Release Pledged Positions"), which has been duly executed by both the Clearing Member and the Pledgee, authorizing the Corporation to release from pledge the long positions in the cleared securities designated on such form. Either type of instruction must be received by the Corporation on a business day before the cut-off time designated by the Corporation in order for the instruction to be given effect that business day (the "Effective Day"). If either type of instruction is received by the Corporation after such cut-off time, then the Corporation shall act on the instruction as of the opening of business on the next business day; and that day shall be the Effective Day. Instructions to Pledge Positions or Instructions to Release Pledged Positions may be revoked by a person authorized to do so, provided that notice of such revocation is received by the Corporation before it has acted on such instruction. No Instruction may be revoked after the Corporation has acted on such instruction. An attempted revocation of Instructions to Pledge Positions received after the Corporation has acted on such instructions shall be deemed to be Pledged Positions, and an attempted revocation of Instructions to Release Pledged Positions received after the Corporation has acted on such instructions shall be deemed to be Instructions to Pledge Positions.
- (c) **Identification of Pledged Positions.** As promptly as practicable after receipt of Instructions to Pledge Positions, the Corporation shall act on such Instructions in ascending order of the Pledgees to which the long positions in a cleared security would be pledged, so that Instructions to Pledge Positions to the first Pledgee would be acted on first, Instructions to Pledge Positions to the second Pledgee would be acted on next, etc. The Corporation shall

give effect to the pledge of the long positions designated on each such form as being pledged to the respective Pledges, except that the Corporation shall have no obligation to so effect a pledge of a position:

- (1) to the extent that the Instructions to Pledge Positions request the pledge of more options of a particular series than the options of the same series carried in the Designated Account as of the opening of business on the Effective Day, at the time when the Corporation acts on such instructions, after giving effect to previous pledges of options of the same series;
- (2) to the extent that giving effect to the requested pledge would cause the Designated Account not to be adequately margined in accordance with the By-Laws and Rules;
- (3) to the extent that the Instructions to Pledge Positions request the pledge of any options which will expire on the day immediately following the Effective Day;
- (4) if the Clearing Member fails to pay any net premiums owing to the Corporation at or before settlement time on the Effective Day; provided, however, that the Corporation may, in its sole discretion, permit a requested pledge if the Clearing Member pays such net premiums between settlement time and 12:00 noon Central Time (1:00 P.M. Eastern Time) on the Effective Day;
- (5) if the Corporation has previously directed the Clearing Member in writing not to pledge any more long positions;
- (6) if the Instructions to Pledge Positions appear to the Corporation not to be properly executed or to contain errors; or
- (7) if the Corporation believes that such pledge would violate any law or any order entered by a court or Government agency.

As promptly as practicable after effecting any pledge of positions, the Corporation shall make available to the Pledgee and the Clearing Member a report confirming that the pledge has been made. Such report shall be irrefutable evidence that the long positions designated therein ("Pledged Options" or "Pledged Cleared Securities," as the case may be) were effectively pledged to the Pledgee as of the time the Corporation acted on the Instructions to Pledge Positions on the Effective Day.

(d) Release from Pledge. A Pledged Cleared Security shall continue to be pledged to the Pledgee until:

- (1) the Pledged Cleared Security is pursuant to paragraph (e) below,
- (2) the Pledged Cleared Security is exercised or sold pursuant to paragraph (f) below, or
- (3) the time specified in paragraph (g) below.

(e) Release of Pledged Positions. As promptly as practicable after receipt of Instructions to Release Pledged Positions executed by both the Clearing Member and the Pledgee, the Corporation shall release from pledge the long positions designated on such form, except that the Corporation shall have no obligation to so release a position:

- (1) to the extent that the Instructions to Release Pledged Positions request the release of more options of a particular series than are identified as being pledged as of the opening of business on the Effective Day;
- (2) if the Instructions to Release Pledged Positions appear to the Corporation not to be properly executed or to contain errors; or
- (3) if the Corporation believes that such release would violate any law or any order entered by a court or Government agency.

A cleared security shall be deemed to be released from pledge as of the time the Corporation acts on the Instructions to Release Pledged Positions on the Effective Day. Upon such release, the option shall cease to be a Pledged Cleared Security and the rights of the Pledgee with respect to such cleared security shall terminate.

(f) Exercise or Sale of a Pledged Cleared Security. A Clearing Member may exercise or sell a Pledged Cleared Security without the prior consent of the Pledgee. When a Pledged Cleared Security is exercised or sold, the Pledgee shall have the rights set forth in Rule 614(i) below. When long positions in the same options series are carried in a Designated Account as pledged and unpledged, or are pledged to two or more Pledgees, sales or exercises of any such cleared security effected on the same day shall be allocated as follows:

- (1) Such sales or exercises shall be allocated provisionally, subject to reallocation pursuant to subparagraph (f)(2) below, as follows:
  - (i) exercises shall be allocated first to the Designated Account to the extent that there is a long position in that options series that has not been pledged, and then in ascending order, so that cleared securities pledged to the first Pledgee would be exercised first and cleared securities pledged to the Pledgee with the highest numerical designation would be exercised last;
  - (ii) sales shall be allocated first to unpledged cleared securities in Designated Account(s) and then in ascending order, so that cleared securities pledged to the first Pledgee would be sold first and cleared securities pledged to the Pledgee with the highest numerical designation would be sold last, to the extent that such accounts have long positions in that options series after giving effect to the exercises effected that day; and
  - (iii) any remaining sales after the long positions in pledged and unpledged cleared securities have been closed out shall establish a short position in the Designated Account.

- (2) If the Corporation fails to receive the Overpledged Value Amount (as defined in Rule 614(i) below) from the Clearing Member on any day when such amount is due, then sales or exercises of long positions in the same options series effected on the preceding business day shall be reallocated as follows:
- (i) exercises shall be allocated first to the Designated Account to the extent that there is a long position in that options series that has not been pledged, and then in ascending order, so that cleared securities pledged to the first Pledgee would be exercised first and cleared securities pledged to the Pledgee with the highest numerical designation would be exercised last;
  - (ii) sales shall be allocated first to unpledged cleared securities in the Designated Account(s) and then in ascending order, so that cleared securities pledged to the first Pledgee would be sold first and cleared securities pledged to the Pledgee with the highest numerical designation would be sold last, to the extent that such accounts have long positions in that options series after giving effect to the exercises effected that day; and
  - (iii) any remaining sales after the long positions in pledged and unpledged cleared securities have been closed out shall establish a short position in the Designated Account.

In calculating the allocation of exercises and sales among Pledgees pursuant to this subparagraph (f)(2), any allocation of a fraction of an option that was exercised or sold shall be disregarded, and any remaining exercised or sold options that were not initially allocated because of the disregarding of fractions shall be allocated to the Pledgee with the highest numerical designation which has a long position in that options series after giving effect to all previous allocations.

- (g) **Expiration of Pledged Options.** Any Pledged Option shall cease to be a Pledged Option when the option expires without having been exercised or sold, and the rights of the Pledgee with respect to such option shall terminate upon such expiration, notwithstanding the fact that the Pledged Option may continue to appear on reports received by the Pledgee from the Corporation until the second business day following expiration.
- (h) **Pledgee's Rights with Respect to Pledged Cleared Securities.** Any liens, rights of setoff, or security interests that the Corporation may at any time have on or with respect to any of the Pledged Cleared Securities shall at all times be fully subordinated to the security interest of Pledgees in the Pledged Cleared Securities. The Corporation shall have no responsibility for taking any action (other than action that it is expressly required to take under this Rule 614) to create or perfect any Pledgee's security interest in the Pledged Cleared Securities. Subject to the prior rights of the Pledgees as provided in this paragraph (h), the Corporation shall have the same lien and rights in respect of Pledged Cleared Securities as it would if such positions were not identified as being pledged. The Corporation acknowledges that for purposes of Articles 8 and 9 of the Uniform Commercial Code, a Pledgee has control over the Designated Account and may, without the prior consent of the Clearing Member, by written notice ("Liquidation Notice") delivered to the Corporation on or before 1:00 P.M.



Central Time (2:00 P.M. Eastern Time) on a business day ("Notice Day"), direct the Corporation to transfer as of the opening of business on the business day next following the Notice Day any or all of the Pledged Cleared Securities then pledged to such Pledgee to an account maintained by another Clearing Member ("Liquidating Clearing Member") designated by the Pledgee to sell such Pledged Cleared Securities on behalf of the Pledgee. The Liquidation Notice shall specify the positions to be transferred and the account maintained by the Liquidating Clearing Member to which such positions are to be transferred. The Pledgee shall be solely responsible for instructing the Liquidating Clearing Member to cause the sale transactions to be executed, for the costs of such sales, and for the performance of any duties that the Pledgee may have as a secured party under applicable laws. The proceeds of such liquidation sales shall be paid in accordance with the following priorities: first, to the Pledgee, to the extent of the claim secured by the Pledged Cleared Securities, including the costs of liquidation borne by the Pledgee (which shall include any legal expenses incurred in connection with the enforcement of the Pledgee's rights with respect to the Pledged Cleared Securities); second, to the Corporation, to the extent of its claim against the Clearing Member; and third, to the Clearing Member or its representative. An exercise notice submitted on the Notice Day by the Clearing Member maintaining the Designated Account with respect to a Pledged Cleared Security that is being transferred out of the Designated Account pursuant to a Liquidation Notice shall be rejected by the Corporation. Any sale transaction effected on the Notice Day with respect to a pledged long position in a cleared security that is being transferred out of the Designated Account pursuant to a Liquidation Notice shall not close out such long position but rather shall establish a short position in the Designated Account.

- (i) **Pledgee's Right with Respect to Overpledged Positions.** Whenever a Clearing Member exercises or sells a Pledged Cleared Security, an "Overpledged Position" shall be created, and the Pledgee to whom the exercise or sale was allocated pursuant to paragraph (f) shall have the rights set forth in this paragraph (i) in addition to any other rights that it may have against the Clearing Member. The Pledgee shall have no rights against the Corporation with respect to Overpledged Positions except as expressly set forth in this paragraph (i). The Corporation shall, on the morning of the business day ("Report Day") following the exercise or sale of a Pledged Cleared Security, deliver a written report to the Pledgee and Clearing Member indicating which Pledged Cleared Security has been exercised or sold pursuant to the provisional allocation under subparagraph (f)(1), subject to possible reallocation under subparagraph (f)(2). Prior to 9:00 A.M. Central Time (10:00 A.M. Eastern Time) on the Report Day, every Clearing Member with Overpledged Positions shall be obligated to pay the Corporation an amount ("Overpledged Value Amount"), for each Pledged Cleared Security which gave rise to an Overpledged Position by being exercised or sold, equal to, in the case of options, the product of (a) the unit of trading for the series of options of the Pledged Option multiplied by (b) the current highest asked per unit premium quotation for options of that series on the Exchanges at or about the close of trading on the preceding business day; provided, however, that the Corporation may fix a different Overpledged Value Amount for any stock option. The Corporation shall be authorized to withdraw the Overpledged Value Amount from the Clearing Member's bank account established in respect of the Primary Account. The Corporation shall, as promptly as practicable after it receives the Overpledged Value Amount from the Clearing Member on the Report Day, deposit such

amount into the Pledgee's Deposit Account. Upon the deposit of such amount into the Pledgee's Deposit Account, the Pledgee shall have no further rights to the Pledged Options which gave rise to the Overpledged Position or to the proceeds thereof.

If the Corporation fails to receive the Overpledged Value Amount from the Clearing Member on the Report Day, then the following procedures shall apply:

- (1) Sales or exercises of Pledged Cleared Security shall be reallocated pursuant to subparagraph (f)(2).
- (2) The Corporation shall suspend the Clearing Member pursuant to Chapter XI of the Rules and shall, as promptly as practicable, deposit the proceeds of each Pledged Cleared Security that was sold on the business day immediately preceding the Report Day into the Pledgee's Deposit Account. In the event that unpledged and pledged options of the same series were sold at different prices on that day, then the proceeds from the sale of such cleared security shall be allocated such that the lower-priced cleared security shall be deemed to have been unpledged and the higher-priced cleared security shall be deemed to have been pledged. In the event that options of the same series were sold at different prices that were pledged to more than one Pledgee on that day, then the aggregate proceeds from the sale of such cleared security shall be allocated among the Pledgees in proportion to the number of options of that series that were pledged to each Pledgee.
- (3) With respect to each Pledged Option that was exercised on the business day immediately preceding the Report Day, other than an index option contract, the Corporation shall notify the Clearing Member to whom the exercise notice was assigned to close out the option contract through the buy-in or sell-out procedures specified in the Rules. The assigned Clearing Member shall pay to the Corporation either (a) the amount by which the exercise settlement amount exceeds the price paid for the securities or currency bought in (in the case of a put) or (b) the amount by which the price received for the securities or currency sold out exceeds the exercise settlement amount (in the case of a call), and the Corporation shall then deposit such amount into the Pledgee's Deposit Account. In the event that unpledged and pledged options of the same series were exercised on that day, then the amounts paid by the assigned Clearing Members in respect of such options shall be allocated such that the smaller amounts paid on a per option basis shall be allocated to the options exercised and the larger amounts paid on a per option basis shall be allocated to the pledged options exercised. In the event that pledged options of the same series pledged to more than one Pledgee were exercised on that day, then the aggregate amount paid by the assigned Clearing Members in respect of such options shall be allocated among the Pledgees in proportion to the number of options of that series pledged to each Pledgee that were exercised. In the event that the exercise settlement amount is less than the price paid for the securities or currency bought in (in the case of a put), or the price received for the securities or currency sold out is less than the exercise settlement amount (in the case of a call), then any such deficiency shall be paid to the assigned Clearing Member as follows: first, from the funds obtained upon liquidation of the assets in the Designated Account until such funds are exhausted; and second, from the Liquidating Settlement Account established pursuant to Chapter XI of the rules. The term "assigned Clearing Member," as used in this

subparagraph (i)(3), shall mean (i) with respect to pledged stock options or Treasury securities options, any Clearing Member that is obligated under the Rules, by reason of assignments made on the Report Day, to deliver to the exercising Clearing Member (in the case of a call exercise) or to receive from the exercising Clearing Member (in the case of a put exercise) the security underlying the Pledged Option that was exercised; or (ii) in the case of a pledged foreign currency option, any Clearing Member that is obligated under the Rules to deliver to the Corporation (in the case of a call exercise) or to receive from the Corporation (in the case of a put exercise), on the settlement date for the exercise of the Pledged Option, the currency underlying the Pledged Option.

- (4) With respect to each pledged index option that was exercised on the business day immediately preceding the Report Day, the Corporation shall promptly deposit into the Pledgee's Deposit Account an amount equal to the exercise settlement amount (as defined in Rule 1806, in the case of index options), if any, payable to the exercising Clearing Member.]

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## CHAPTER XI

### Suspension of a Clearing Member

\* \* \*

### Pending Transactions and Variation Payments

RULE 1105. Notwithstanding any other provision of the By-Laws and Rules, the Corporation shall have no obligation to accept any matched Exchange transaction of a suspended Clearing Member that was effected after the time at which the Clearing Member was suspended. In the event an Exchange transaction of a suspended Clearing Member is rejected by the Corporation, such transaction shall be closed by the other party thereto in accordance with the Exchange Rules of the Exchange on which the transaction was effected. Exchange transactions of a suspended Clearing Member that are accepted by the Corporation shall be treated in the following manner:

(a)-(g) [no change]

[(h) Notwithstanding the other provisions of this Rule 1105, the proceeds of the sale of a Pledged Cleared Security in a suspended Clearing Member's Designated Account(s) (as defined in Rule 614) shall, unless the Pledgee has received the Overpledged Value Amount with respect to the Pledged Cleared Security that was sold, be remitted by the Corporation to the Pledgee pursuant to Rule 614.]

### Open Positions

RULE 1106. (a) Long Positions in Options and BOUNDS. Open long positions in options and BOUNDS of a suspended Clearing Member in all accounts, as updated to reflect pending

transactions that have been accepted by the Corporation, shall be closed by the Corporation in the most orderly manner practicable, including, but not limited to, a private auction. The net proceeds from the closing of such positions shall be disposed of in accordance with Rule 1105, in the same manner as premiums on closing writing transactions accepted by the Corporation after a Clearing Member's suspension. Notwithstanding the foregoing:

[(1) the net proceeds from the closing of open long positions in Pledged Cleared Securities in a suspended Clearing Member's Designated Account(s) shall be remitted by the Corporation to the Pledgee pursuant to Rule 614;]

[(2)1] the Corporation may in its discretion exercise, in whole or in part, any unsegregated long position of a suspended Clearing Member in options; and

[(3)2] if an option carried in a segregated long position of a suspended Clearing Member has not been closed out prior to its expiration date, and the exercise price thereof is below (in the case of a call) or above (in the case of a put) the closing price of the underlying security, as defined for the purposes of Rule 805, by (i) \$.01 or more in the case of a stock option contract, or (ii) the interval or intervals established in accordance with the applicable Chapter of the Rules (or, if no such intervals shall have been established, such interval or intervals as the Corporation shall in its discretion select) in the case of an option other than a stock option, the option shall be exercised for the account of the suspended Clearing Member on its expiration date.

If an option is exercised pursuant to this Rule 1106(a), or if a BOUND has expired but not been settled, the exercised option, or expired BOUND shall, unless the Corporation stipulates otherwise, be closed in accordance with Rule 1107 (or in accordance with a Rule applicable to such option or BOUND that replaces Rule 1107), provided that any gain or loss sustained by the assigned Clearing Member shall be credited or charged, as the case may be, to the account that would have been credited with the net proceeds from the closing of such option or BOUND had it been closed rather than exercised or allowed to expire. The suspended Clearing Member or its representative shall be notified as promptly as possible of any closing or exercise of long positions pursuant to this Rule.

(b)-(g) [no change]

*...Interpretations and Policies:*

.01 [no change]

**Exercised or Matured Contracts**

RULE 1107. (a) Unless the Corporation stipulates otherwise in a particular case, exercised option contracts to which a suspended Clearing Member is a party (either as the exercising Clearing Member or as the assigned Clearing Member) and matured, physically-settled stock futures to which such Clearing Member is a party shall be disposed of as follows:

(1)—(2) [no change]

[(3) If the suspended Clearing Member was the exercising Clearing Member in respect of an exercised Pledged Option and the Pledgee did not receive the Overpledged Value Amount with respect to such exercised Pledged Option, then the disposition of the exercised Pledged Option shall be governed by Rule 614.]

[(4)3] Exercised foreign currency option contracts for which a bank is obligated to effect settlement for the account of a suspended Clearing Member under the settlement procedure described in Rule 1606A shall be settled in the ordinary course.

[(5)4] If the suspended Clearing Member was a Paying Clearing Member (as defined in Rule 1605(b)) in respect of an exercised foreign currency option contract, any amount due to the Corporation from the suspended Clearing Member shall be paid from the Liquidating Settlement Account of the suspended Clearing Member.

[(6)5] All other exercised option contracts and matured, physically-settled futures to which the suspended Clearing Member was a party shall be closed through the buy-in and sell-out or other procedures provided in the Rules. All losses (including damages chargeable to the suspended Clearing Member in the absence of a buy-in or sell-out) and gains resulting from the application of such procedures shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member, provided, however, that (i) all such losses in a Market-Maker's account or a customers' lien account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account; (ii) all such losses in a segregated futures account shall first be paid from the Segregated Liquidating Settlement Account to the extent permitted by applicable law and to the extent that there are funds available in such account, and only the amount of any deficit shall be paid from the Liquidating Settlement Account; and (iii) all such losses in an internal non-proprietary cross-margining account shall first be paid from the Internal Non-Proprietary Cross-Margining Liquidating Settlement Account to the extent permitted by applicable law and to the extent that there are funds available in such account, and only the amount of any deficit shall be paid from the Liquidating Settlement Account.

(b)-(c) [no change]



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**CHAPTER XV**

**Binary Options; Range Options**

\* \* \*

**Suspension of Clearing Members - Exercised Contracts**

RULE 1505. Exercised binary options or range options to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 1504 provided that the net settlement amount in respect of such contracts shall be paid from or[, subject to the rights of any Pledges under Rule 614,] credited to the Liquidating Settlement Account or, in the case of binary options or range options that are commodity options, the Segregated Liquidating Settlement Account of such Clearing Member pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1504 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or that have exercised binary options or range options that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

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**CHAPTER XVII**

**Yield-Based Treasury Options**

\* \* \*

**Suspension of Clearing Members-Exercised Contracts**

RULE 1705. Exercised yield-based Treasury option contracts to which a suspended Clearing Member is a party (either as the exercising Clearing Member or as the assigned Clearing Member) shall be settled in accordance with Rule 1704 provided that the net settlement amount in respect of such contracts shall be paid from or [, subject to the rights of any Pledges under Rule 614,] credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1704 with all Clearing Members that have been assigned an exercise notice filed by a suspended Clearing Member or that have filed exercise notices that were assigned to a suspended Clearing Member without regard to such suspension.



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**CHAPTER XVIII**

**Index Options and Certain Other Cash-Settled Options**

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**Suspension of Clearing Members-Exercised Contracts**

RULE 1807. (a) Exercised cash-settled option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 1806 provided that the net settlement amount in respect of such contracts shall be paid from or[, subject to the rights of any Pledgees under Rule 614,] credited to the Liquidating Settlement Account or, in the case of cash-settled commodity options, the Segregated Liquidating Settlement Account, of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 1806 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or that have exercised cash-settled option contracts that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

\* \* \*

**CHAPTER XXIII**

**Cash-Settled Foreign Currency Options**

\* \* \*

**Suspension of Clearing Member - Exercised Contracts**

RULE 2306. Exercised cash-settled foreign currency option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 2305 provided that the net settlement amount in respect of such contracts shall be paid from or [, subject to the rights of any Pledgees under Rule 614,] credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 2305 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or for whom exercised cash-settled foreign currency option contracts were assigned to a suspended Assigned Clearing Member without regard to such suspension.

\* \* \*

## CHAPTER XXVII

### Packaged Spread Options

\* \* \*

#### Suspension of Clearing Members-Exercised Contracts

RULE 2706. Exercised packaged spread option contracts to which a suspended Clearing Member is a party (either as the Exercising Clearing Member or as the Assigned Clearing Member) shall be settled in accordance with Rule 2705 provided that the net settlement amount in respect of such contracts shall be paid from or [, subject to the rights of any Pledges under Rule 614,] credited to the Liquidating Settlement Account of such Clearing Member established pursuant to Rule 1104. The Corporation shall effect settlement pursuant to Rule 2705 with all Clearing Members that have been assigned an exercise of a suspended Exercising Clearing Member or that have exercised packaged spread contracts that were assigned to a suspended Assigned Clearing Member without regard to such suspension.

\* \* \*

#### Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by OCC's Board of Directors at a meeting held on May 22, 2012.

Questions regarding the proposed rule change should be addressed to Stephen Szarmack, Vice President and Associate General Counsel, at (312) 322-4802.

#### Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of this proposed rule change is to terminate OCC's pledge program ("Program"). Since implementation of the Program, only a limited number of clearing members participated and those that did participate did so on a sporadic basis. OCC now proposes to eliminate the Program in its entirety.

The Program was adopted by OCC in the early 1980s to facilitate the ability of an OCC clearing member to finance positions by permitting the clearing member to pledge unsegregated long positions in cleared securities (other than securities futures) for a loan of cash. The Program was initially designed for and used by firms clearing market maker business; however, use of the Program diminished as market making operations were acquired by larger wire houses. While OCC occasionally receives an inquiry regarding the Program, it has been essentially dormant for some time. OCC recently reviewed the Program and determined that any potential benefits that OCC may gain through updating the Program are greatly offset by the resources required for such modernization. Accordingly, OCC plans to terminate the Program in its entirety.

OCC proposes to eliminate Rule 614 in its entirety as well as references to the Program and Rule 614 in its Rules and in its By-Laws.

\* \* \*

The proposed changes to OCC's By-Laws are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), because they will allow OCC to remove a rarely used operational function and focus its resources on core clearing operations. Moreover, OCC believes that elimination of the Program will not materially affect clearing members given its limited and infrequent use. The proposed rule change is not inconsistent with any rules of OCC, including any proposed to be amended.

**Item 4. Self-Regulatory Organization's Statement on Burden on Competition**

OCC does not believe that the proposed rule change would impose any material burden on competition.

**Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others.**

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been received.

**Item 6. Extension of Time Period for Commission Action**

OCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.

**Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Not applicable.

**Item 8. Proposed Rule Change Based on Rules of Another Regulatory Organization or of the Commission**

The proposed rule change is not based on a rule change of another self-regulatory organization.

**Item 9. Exhibits**

Exhibit 1 Completed notice of the proposed rule change for publication in the Federal Register.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

**THE OPTIONS CLEARING CORPORATION**

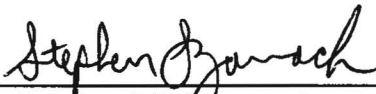
By:   
\_\_\_\_\_  
**Stephen M. Szarmack**  
**Vice President and**  
**Associate General Counsel**

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_ ; File No. SR-OCC-2012-10

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By  
The Options Clearing Corporation

Relating to OCC's Pledge Program

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on \_\_\_\_\_, 2012, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change would terminate OCC's pledge program ("Program"). Since implementation of the Program, only a limited number of clearing members participated and those that did participate did so on a sporadic basis.



**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

**A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

The purpose of this proposed rule change is to terminate OCC's pledge program ("Program"). Since implementation of the Program, only a limited number of clearing members participated and those that did participate did so on a sporadic basis. OCC now proposes to eliminate the Program in its entirety.

The Program was adopted by OCC in the early 1980s to facilitate the ability of an OCC clearing member to finance positions by permitting the clearing member to pledge unsegregated long positions in cleared securities (other than securities futures) for a loan of cash. The Program was initially designed for and used by firms clearing market maker business; however, use of the Program diminished as market making operations were acquired by larger wire houses. While OCC occasionally receives an inquiry regarding the Program, it has been essentially dormant for some time. OCC recently reviewed the Program and determined that any potential benefits that OCC may gain through updating the Program are greatly offset by the resources required for such modernization. Accordingly, OCC plans to terminate the Program in its entirety.

OCC proposes to eliminate Rule 614 in its entirety as well as references to the Program and Rule 614 in its Rules and in its By-Laws.

\* \* \*

The proposed changes to OCC's By-Laws are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), because they will allow OCC to remove a rarely used operational function and focus its resources on core clearing operations. Moreover, OCC believes that elimination of the Program will not materially affect clearing members given its limited and infrequent use. The proposed rule change is not inconsistent with any rules of OCC, including any proposed to be amended.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

OCC does not believe that the proposed rule change would impose any burden on competition.

**C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others**

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds

such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments:*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2012-10 on the subject line.

*Paper Comments:*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2012-10. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the

proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 100F Fifth Street, N.E., Washington, D.C. 20549-1090. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-OCC-2012-10 in the caption above and should be submitted on or before [insert date 21 days from publication in the Federal Register.] \_\_\_\_\_.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Secretary

Dated: \_\_\_\_\_